

Message Text

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ACTION TRSE-00

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DEPARTMENT PASS TREASURY AND EXIMBANK

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: INCREASE IN HERMES CEILING

REF: MCDOWELL/RYS TELCON, STATE 29236

1. ACTING ON THE EXPECTATION THAT CUMULATIVE HERMES EXPORT INSURANCE AND GUARANTEES WOULD REACH THE CURRENT DM 75 BILLION CEILING AT THE END OF THIS MONTH, THE PARLIAMENTARY BUDGET COMMITTEE HAS AGREED TO RAISE THE CEILING BY DM 9 BILLION TO DM 84 BILLION. THE INCREASE SHOULD ENABLE HERMES TO CONTINUE TO PROVIDE COVER ON EXPORT CREDITS PENDING PASSAGE OF THE 1977 GOVERNMENT BUDGET. THE 1977 DRAFT BUDGET PROPOSES INCREASING HERMES EXPOSURE CEILING TO DM 110 BILLION, NOT DM 217 BILLION REPORTED IN REFTEL. FOR COMPARISON, PREVIOUS YEARS' CEILINGS WERE; DM 60 BILLION IN 1975, DM 40 BILLION IN 1974 AND DM 35 BILLION IN 1973. SHOULD THE GOVERNMENT'S PROPOSAL BE ACCEPTED, WHICH IS ALMOST CERTAIN, THE SIZE OF THE HERMES FACILITY WILL HAVE MORE THAN TRIPLED IN THE PAST FIVE YEARS.

2. GERMAN OFFICIALS RESPONSIBLE FOR THIS SUBJECT
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(GEHRING IN THE ECONOMIC MINISTRY AND JAECKEL IN THE FINANCE MINISTRY) TELL US THAT THE FRG IS FACING CONSIDERABLY INCREASED DEMAND FROM GERMAN EXPORTERS AND FINANCIAL INSTITUTIONS FOR OFFICIAL COVER ON EXPORT CONTRACTS. GEHRING AND JAECKEL POINTED TO AN INCREASED NUMBER OF "LARGE" PROJECTS, EXPORTS AND GROWING TRADE WITH THE SOVIET BLOC AND OPEC COUNTRIES AS MAJOR SOURCES

OF THIS DEMAND. COMPOUNDING THIS, THEY STATE, IS THAT RISING SOVIET BLOC AND LDC DEBT LEVELS HAVE STIMULATED DEMAND FOR GOVERNMENT COVER TO OFFSET PERCEIVED GREATER RISK.

3. GERMAN OFFICIALS REJECTED ANY NOTION EITHER THAT THE PROPOSED INCREASE IN THE HERMES CEILING WOULD PROVE DETRIMENTAL TO ONGOING INTERNATIONAL EFFORTS TO HARMONIZE THE USE OF OFFICIAL FINANCIAL SUPPORT FOR EXPORTS OR THAT THE INCREASE IS OUT OF LINE WITH FRG POLICY TO SEEK REDUCTIONS IN COUNTER PRODUCTIVE COMPETITION IN THIS AREA. THEY EMPHASIZED THAT GERMAN EXPORTS ARE NORMALLY FINANCED BY COMMERCIAL BANKING INSTITUTIONS AT MARKET RATES OF INTEREST, THAT HERMES COVER ENTAILS ADDITIONAL FINANCIAL COSTS AND THAT THE FRG WILL CONTINUE TO ABIDE BY THE GUIDELINES PUT FORTH IN THE UNILATERAL DECLARATIONS. FURTHERMORE, THEY POINTED TO THE RELATIVELY SMALL SCOPE OF THE GERMAN PROGRAM AS COMPARED TO THOSE OF ITS MAJOR COMPETITORS (IN 1976 ABOUT 9 PERCENT OF GERMAN EXPORTS BENEFITED FROM OFFICIAL FINANCIAL SUPPORT AS COMPARED TO 25 PERCENT FOR FRANCE AND 44 PERCENT FOR THE U.K.).
STOESSEL

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